MISONIX INC
Form 10-Q
May 10, 2011

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FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2011

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number: 1-10986

MISONIX, INC.

(Exact name of registrant as specified in its charter)

New York	11-2148932
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1938 New Highway, Farmingdale, NY	11735
(Address of principal executive offices)	(Zip Code)

(631) 694-9555

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Class of Common Stock	Outstanding at May 10, 2011

Common Stock, $.01 par value	7,001,369

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements.

MISONIX INC. and Subsidiaries
Consolidated Balance Sheets

	March 31, 2011 (Unaudited)	June 30, 2010 (Derived from Audited Financial Statements)
Current Assets:		
Cash	**$ 7,584,475**	$ 9,900,605
Accounts receivable, less allowance for doubtful accounts of $109,070 and $123,346, respectively	**1,859,026**	2,335,653
Inventories, net	**3,909,943**	2,699,717
Prepaid expenses and other current assets	**501,622**	515,427
Notes receivable	**210,000**	1,075,105
Total current assets	**14,065,066**	16,526,507
Property, plant and equipment, net	**922,285**	500,215
Goodwill	**1,701,094**	1,701,094
Other assets	**2,189,232**	1,730,339
Total assets	**$ 18,877,677**	$ 20,458,155
Liabilities and stockholders equity		
Current liabilities:		
Notes payable	**$**	$ 177,679
Accounts payable	**1,293,455**	888,654
Accrued expenses and other current liabilities	**1,132,039**	1,000,523
Total current liabilities	**2,425,494**	2,066,856
Capital lease obligations	**2,666**	14,274
Deferred lease liability	**9,830**	
Deferred income	**192,314**	250,739
Total liabilities	**2,630,304**	2,331,869
Commitments and contingencies		
Stockholders equity:		
Common stock, $.01 par value-shares authorized 20,000,000; 7,079,169 issued, and 7,001,369 outstanding	**70,792**	70,792
Additional paid-in capital	**25,709,294**	25,502,717

Acculated deficit	**(9,120,289)**	(7,034,799)
Treasury stock, 77,800 shares	**(412,424)**	(412,424)
Stockholders equity	**16,247,373**	18,126,286
Total liabilities and stockholders equity	**$ 18,877,677**	$ **20,458,155**

See Accompanying Notes to Consolidated Financial Statements.

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MISONIX INC. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

	For the nine months ended March 31, 2011	2010
Net sales	**$ 10,274,831**	$ 9,092,322
Cost of goods sold	**4,877,847**	4,860,539
Gross profit	**5,396,984**	4,231,783
Operating expenses:		
Selling expenses	**3,098,967**	2,649,699
General and administrative expenses	**3,334,338**	3,824,640
Research and development expenses	**1,303,121**	1,387,133
Total operating expenses	**7,736,426**	7,861,472
Loss from operations	**(2,339,442)**	(3,629,689)
Other income (expense):		
Interest income	**93**	28,178
Interest expense	**(5,494)**	(48,176)
Royalty income and license fees	**487,622**	481,417
Royalty expense	**(51,324)**	(83,926)
Recovery of Focus Surgery, Inc. investment		693,044
Other	**146,796**	(20,320)
Total other income	**577,693**	1,050,217
Loss from continuing operations before income taxes	**(1,761,749)**	(2,579,472)
Income tax (benefit)	**46,100**	(976,435)
Net loss from continuing operations	**(1,807,849)**	(1,603,037)
Discontinued operations:		
Net (loss) income from discontinued operations net of $0 and tax of $358,634	**(277,641)**	506,367
Net loss from sale of discontinued operations net of tax of $0 and $957,937		(369,848)
Noncontrolling interest in discontinued operations, net of income tax		66,201
Total net (loss) income from discontinued operations	**(277,641)**	**202,720**
Net loss attributable to Misonix, Inc. shareholders	**(2,085,490)**	$ (1,400,317)

Net loss per share from continuing operations attributable to Misonix, Inc. shareholders Basic	**$**	**(0.26)**	$	(0.23)
Net (loss) income per share from discontinued operations Basic		**(0.04)**		0.03
Net loss per share attributable to Misonix, Inc. shareholders Basic	**$**	**(0.30)**	$	(0.20)
Net loss per share from continuing operations attributable to Misonix, Inc. shareholders Diluted	**$**	**(0.26)**	$	(0.23)
Net (loss) income per share from discontinued operations Diluted		**(0.04)**		0.03
Net loss per share attributable to Misonix, Inc. shareholders Diluted	**$**	**(0.30)**	$	(0.20)
Weighted Average Shares Basic		**7,001,369**		7,001,369
Weighted Average Shares Diluted		**7,001,369**		7,001,369

See Accompanying Notes to Consolidated Financial Statements.

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MISONIX INC. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

	For the three months ended March 31, 2011	2010
Net sales	**$ 3,593,154**	$ 3,313,131
Cost of goods sold	**1,720,037**	1,596,264
Gross profit	**1,873,117**	1,716,867
Operating expenses:		
Selling expenses	**1,079,267**	671,213
General and administrative expenses	**1,007,051**	1,021,476
Research and development expenses	**414,342**	441,093
Total operating expenses	**2,500,660**	2,133,782
Loss from operations	**(627,543)**	(416,915)
Other income (expense):		
Interest income	**18**	101
Interest expense	**(415)**	(2,517)
Royalty income and license fees	**135,920**	172,534
Royalty expense	**(11,065)**	(18,870)
Recovery of Focus Surgery, Inc. investment		693,044
Other	**106,963**	(11,609)
Total other income	**231,421**	832,683
Loss from continuing operations before income taxes	**(396,122)**	415,768
Income tax	**4,000**	206,242
Net (loss) income from continuing operations	**(400,122)**	209,526
Discontinued operations:		
Net (loss) from discontinued operations net of $0 and a tax benefit of ($111,763)	**(131,356)**	(258,850)
Net loss from sale of discontinued operations net of tax of $0 and $0		(257,029)
Noncontrolling interest in discontinued operations, net of income tax		24,861
Total net loss from discontinued operations	**(131,356)**	(491,018)
Net loss attributable to Misonix, Inc. shareholders	**(531,478)**	$ (281,492)

Net (loss) income per share from continuing operations attributable to Misonix, Inc. shareholders Basic	**$**	**(0.06)**	$	0.03
Net loss per share from discontinued operations Basic		**(0.02)**		(0.07)
Net loss per share attributable to Misonix, Inc. shareholders Basic	**$**	**(0.08)**	$	(0.04)
Net (loss) income per share from continuing operations attributable to Misonix, Inc. shareholders Diluted	**$**	**(0.06)**	$	0.03
Net loss per share from discontinued operations Diluted		**(0.02)**		(0.07)
Net loss per share attributable to Misonix, Inc. shareholders Diluted	**$**	**(0.08)**	$	(0.04)
Weighted Average Shares Basic		**7,001,369**		7,001,369
Weighted Average Shares Diluted		**7,001,369**		7,038,385

See Accompanying Notes to Consolidated Financial Statements.

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MISONIX, INC and Subsidiaries
Consolidated Statement of Stockholders Equity
(Unaudited)
Nine months ended March 31, 2011

	Common Stock $.01 Par Value		Treasury Stock		Additional		Total
	Number of Shares	Amount	Number of Shares	Amount	Paid-in Capital	Accumulated Deficit	Stockholder s Equity
Balance, June 30, 2010	**7,079,169**	**$ 70,792**	**(77,800)**	**$ (412,424)**	**$ 25,502,717**	**$ (7,034,799)**	**$ 18,126,286**
Net loss\comprehensive loss						(2,085,490)	(2,085,490)
Stock-based compensation					206,577		206,577
Balance, March 31, 2011	**7,079,169**	**$ 70,792**	**(77,800)**	**$ (412,424)**	**$ 25,709,294**	**$ (9,120,289)**	**$ 16,247,373**

See Accompanying Notes to Consolidated Financial Statements.

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MISONIX, INC and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	For the nine months ended March 31,	
	2011	2010
Operating activities		
Net loss from continuing operations	**$ (1,807,849)**	$ (1,603,037)
Adjustments to reconcile net loss to net cash used in continuing operating activities:		
Depreciation and amortization	**319,961**	354,851
Bad debt expense	**(31,130)**	(6,475)
Deferred income tax benefit	**(2,086)**	(1,078,655)
Loss on disposal of property, plant and equipment	**(28,949)**	13,809
Stock-based compensation	**206,577**	197,825
Deferred income	**(3,181)**	(18,234)
Deferred lease liability	**9,830**	(28,953)
Recovery of Focus Surgery, Inc. investment		(693,044)
Changes in operating assets and liabilities:		
Accounts receivable	**521,120**	809,209
Inventories	**(1,079,789)**	358,591
Income taxes	**(16,068)**	(109,511)
Prepaid expenses and other current assets	**(235,337)**	(471,220)
Accounts payable and accrued expenses	**478,311**	475,719
Other	**213,803**	(964,419)
Net cash used in operating activities	**(1,454,787)**	(2,763,544)
Investing activities		
Acquisition of property, plant and equipment	**(584,200)**	(906,013)
Acquisition of assets from Aesculap, Inc.	**(929,880)**	
Recovery of Focus Surgery, Inc. investment		693,044
Net cash used in investing activities	**(1,514,080)**	(212,969)
Financing activities		
Proceeds from short-term borrowings		9,514,892
Payments of short-term borrowings	**(177,679)**	(12,150,652)
Principal payments on capital lease obligations	**(10,866)**	(10,110)
Net cash used in financing activities	**(188,545)**	(2,645,870)
Cash flows from discontinued operations		
Net cash (used in) provided by operating activities	**(277,641)**	202,720
Net cash provided by investing activities	**1,115,000**	11,200,000

Net cash provided by discontinued operations	**837,359**	11,402,720
Effect of exchange rate changes on cash	**3,923**	(16,917)
Net (decrease) increase in cash	**(2,316,130)**	5,763,420
Cash at beginning of period	**9,900,605**	3,415,813
Cash at end of period	**$ 7,584,475**	$ 9,179,233
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	**$ 5,494**	$ 254,152
Income taxes	**$ 42,100**	$ 63,763

See Accompanying Notes to Consolidated Financial Statements.

MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The accompanying unaudited financial information should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended June 30, 2010 (2010 Annual Report). A summary of the Company s significant accounting policies is identified in Note 1 of the notes to the consolidated financial statements included in the Company s 2010 Annual Report. There have been no changes in the Company s significant accounting policies subsequent to June 30, 2010.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X pursuant to the requirements of the U.S. Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the interim periods are not necessarily indicative of the results of operations for the entire year.

The consolidated financial statements of MISONIX, INC. (Misonix or the Company) include the accounts of Misonix and its 100% owned subsidiaries, Hearing Innovations, Inc. (Hearing Innovations) and Fibra-Sonics (NY) Inc. (F-S). All significant intercompany balances and transactions have been eliminated.

Organization and Business

Misonix was incorporated under the laws of the State of New York on July 31, 1967 and some of its revenue producing activities, from 1967 to date, have been the manufacture and distribution of scientific and industrial ductless fume enclosure equipment. In 1992, the Company started research and development efforts towards formulating the ultrasonic medical device business, which currently is the Company s predominant business. Misonix s products are sold worldwide. In October 1996, the Company entered into licensing agreements to further develop one of its medical devices.

For the three and nine months ended March 31, 2011 and 2010, approximately 27%, 27%, 33% and 23%, respectively, of the Company s net sales were to foreign markets. Sales by the Company in major industrial countries are made primarily through distributors.

Hearing Innovations is located in Farmingdale, New York and is a development company with patented HiSonic ultrasonic technology for the treatment of profound deafness and tinnitus.

On October 7, 2010, the Company, F-S and Aesculap, Inc. (Aesculap) entered into a Termination, Amendment and Buy-Back Agreement to Distributor Agreement (the Termination Agreement). Pursuant to the Termination Agreement, the parties agreed to terminate, as of October 15, 2010 (the Termination Date), (i) Misonix s remaining obligations under the Distributor Agreement dated November 1999 between Aesculap and F-S, as amended (the Distributor Agreement), and (ii) Aesculap s rights to sell procedure packs (the Sale Rights) to the Sonastar Customers (as defined below). On the Termination Date, in consideration of the purchase and sale of (i) Aesculap s current service contracts (Sonastar Contracts) for the products (the Products) that are the subject of the Distributor Agreement, customer list and customers currently evaluating the Products all with respect to the sale and servicing of the Products (the Customer List) and (ii) the Sale Rights, on October 15, 2010, Misonix paid Aesculap $800,000. Misonix will assume all rights, responsibilities and obligations pursuant to and under the (i) Sonastar Contracts and Customer List and (ii) the Sale Rights, including, without limitation, the sale of accessory Products and servicing and training of the Products to the customers with Sonastar Contracts (the Sonastar Customers). Misonix also agreed to repurchase from Aesculap the current inventory of (i) new Products held by Aesculap at the price Aesculap paid for such Products and (ii) used Products held by Aesculap for demonstration and/or loaner purposes at the prices equal to Aesculap s book-value as of July 31, 2010 for such Products. The purchase price for the current inventory acquired was $519,000 and is payable in four quarterly installments beginning on December 31, 2010. A payment of $129,880 was made to Aesculap in January 2011. Aesculap also agreed to certain non-competition and non-solicitation restrictions for an eighteen (18) month period.

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MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

The Company has determined that the acquisition did not constitute a business combination in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification 805, Business Combinations. Accordingly, it has been recorded as an asset acquisition with the aggregate cost of $1,319,000 assigned to the assets acquired based upon their relative fair values. The Company has allocated $259,000 of the cost to inventory, $260,000 of the cost to equipment which will be amortized over a three year period on a straight-line basis and $800,000 to customer relationships which will be amortized on a straight-line basis over a five year period.

Discontinued Operations

On August 4, 2009, the Company sold its Labcaire Systems, Ltd. (Labcaire) subsidiary to PuriCore International Limited (PuriCore Limited) for a total purchase price of up to $5.6 million. The Company received $3.6 million at closing and a promissory note in the principal amount of $1 million, payable in equal installments of $250,000 on the next four anniversaries of the closing. As of March 31, 2011, the Company received the first installment. The note receivable was discounted over the four years using a 4% imputed interest rate. This rate is consistent with published discounts. The discounted value of the note ($900,000) was used to determine gain or loss on the sale and the remaining outstanding balance is included in other assets in the consolidated balance sheet, with the current portion reflected as a component of notes receivable. The Company will also receive a commission paid on sales for the period commencing on the date of closing and ending on December 31, 2013 of 8% of the pass through Automated Endoscope Reprocessing (AER) and Drying Cabinet products, and 5% of license fees from any chemical licenses marketed by Labcaire directly associated with sale of AERs, specifically for the disinfection of the endoscope. The aggregate commission payable to the Company is subject to a maximum payment of $1,000,000. The aggregate commission will not be recognized in determining the current gain or loss on the sale of Labcaire until the commission is paid. As of March 31, 2011, there were no commissions paid. For the nine months ended March 31, 2010, the Company recorded a pre-tax gain on the sale of Labcaire of $762,221. Results of Labcaire operations have been reported as a discontinued operation for all periods presented.

On July 19, 2010, the Company received a Dispute Notice (the Dispute Notice) from PuriCore Plc (PuriCore) with respect to the sale and purchase of the shares of Labcaire which was completed on August 4, 2009. PuriCore alleged that Misonix breached certain representations and warranties that could result in a reduction to the purchase price of approximately £1.6 million or approximately $2.5 million. PuriCore subsequently amended its claim to £2.3 million or approximately $3.5 million. The Company and PuriCore engaged in the mediation procedure provided for by the Stock Purchase Agreement, dated August 4, 2009 (the Agreement), pursuant to which Labcaire was sold. The Company and PuriCore were not able to reach a satisfactory agreement by the conclusion of the mediation. On January 14, 2011, PuriCore Limited, a subsidiary of PuriCore, filed suit in the High Court of Justice, Queens Bench Division, Commercial Court, Royal Courts of Justice, London, England (Claim No. 2011-42) (the Lawsuit). In the Lawsuit, PuriCore Limited claims damages from Misonix in respect of breach of warranties contained in the Agreement. PuriCore Limited alleges that the warranties made by Misonix in the Agreement were breached by virtue of various misstatements made in the course of the disclosure process prior to the completion of the Agreement . PuriCore Limited claims damages of £2,167,000 or approximately $3,600,000, plus interest and its legal costs. The Company believes the Lawsuit is without merit and intends to vigorously defend its position. The Company s counsel believes that the Company has strong defenses to the allegations made in the Lawsuit. There can be no assurance, however, that the Company may not have to pay some amount to resolve PuriCore Limited s claims. The Company and PuriCore have agreed upon an amount for commissions applicable to the first year s sales of £190,000 or approximately $285,000. This amount was due to be paid to Misonix on October 30, 2010. To date, the Company has not received such amount. Due to the uncertainty surrounding collectability of the commission as a result of the Dispute Notice, the Company has not recognized this amount in the consolidated financial statements.

On October 2, 2009, Acoustic Marketing Research, Inc. d/b/a Sonora Medical Systems (Sonora) sold substantially all of its assets to Medical Imaging Holdings, Inc. (Medical Imaging) for a cash payment of $8,000,000 (subject to a future adjustment based on net working capital, at the closing). On April 6, 2010, the Company paid $257,029 to

Medical Imaging for the net difference of adjustments of working capital and the effect of income taxes. These amounts were reflected in discontinued operations in the June 30, 2010 audited financial statements. The Company also purchased at the closing of such transaction, utilizing $1,200,000 of the proceeds, the remaining outstanding 5% of Sonora s shares. Sonora is engaged in the business of (i) selling, repairing and servicing new and used diagnostic ultrasound systems and consumable accessories used in conjunction therewith, (ii) selling, repairing, servicing and testing diagnostic ultrasound transducers, (iii) developing and selling equipment for testing ultrasound transducers, (iv) selling equipment used for cleaning and disinfecting ultrasound transducers including, but not limited to, transesophogeal echocardiography probes, (v) selling equipment used for testing endoscopic probes, (vi) repairing and servicing MRI systems and parts and subsystems used therein, and (vii) performing training for the service and maintenance of diagnostic ultrasound and MRI systems, in each instance throughout the world. The net assets and results of Sonora operations have been reported as a discontinued operation for all periods presented.

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MISONIX, INC. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

On May 28, 2010, Misonix announced the sale to USHIFU, LLC (USHIFU) of all of its rights to the High Intensity Focused Ultrasound (HIFU) technology together with other HIFU-related assets. In consideration for the sale, Misonix will receive up to approximately $5.8 million, paid out of an earn-out of 7% of gross revenues received by USHIFU related to the businesses being sold, up to